



INTERSUISSE

GROUP THREE:

Research on small companies

Often the companies we most want to invest in for a better future are small cap. This includes companies involved in environmental technology, biotechnology, health, transport and education. What's the best and cheapest way to source information about the ESG performance of these companies?

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Small Companies

Where's the attraction?

- At the core of Environmental, Social and Governance needs is innovation and creativity.
- Drives change orientation critical to overturning habits which are often the cause of poor ESG.
- Tend to idolise the idea rather than the outcome.

Small Companies

Where there's potential there's dangers.

- Under cash flow pressures can cut ESG corners.
- Often there is too much focus on the E&S and too little on the G.
- The G is the most important for small companies – the mark of integrity
- Research insight is more critical but requires a less conventional approach.
- Investment grade “score-carding”.

Small Companies

Show us the research!

- Sadly there is a gross underrepresentation of research for small companies
- Often compromised by the research being “paid-for”
- Use your ESG advisor/analyst
- ‘Corporate monitor’ tables
- Run your own ESG “scorecard”
- Conventional marks of performance unreliable – watch the RISKS!

Small Companies

Running your own ESG Scorecard

- Risk focus:

- future political or regulatory risks
- the alignment of management and board with long-term company value
- quality of human resources management
- risks associated with governance structure
- the environment,
- restructurings/mergers and acquisitions
- branding
- corporate ethics and stakeholder relations

- To screen or not to screen?

- Negative screening against Tobacco, Arms, Alcohol, Gambling etc.

Small Companies

Running your own ESG Scorecard

Corporate Monitor uses the following broad checklist:

Environment Rating

- Environmental impact of products and services - uranium, logging, mining, greenhouse gas, plastics, packaging, recycling, genetically modified food and energy.
- Environmental reporting.
- Environmental management.
- Penalties for environmental compliance.
- Environment awards.
- Pollution levels to air, land, and water

Social Rating

- Community relations and philanthropy.
- Human rights.
- Indigenous issues.
- Involvement in weapons and defence equipment.
- Products associated with social problems - alcohol, tobacco, gaming.
- Employee Relations – occupational health & safety, employee share schemes, discrimination, unfair dismissal and union disputes.

Governance Rating

- Legal compliance - corporate governance, trade practices, fair trading.
- Instances of organised shareholder activism or complaints on behalf of shareholders.
- Governance awards and commentators.
- Remuneration.
- Executive, Director and Auditor remuneration levels.
- Board committee structures and independence
- Concentrated shareholdings

See real example of scorecard – ECT Ltd (ASX:ESI)